

Message Text

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67

ACTION AF-06

INFO OCT-01 EUR-12 IO-10 ISO-00 AGR-10 CEA-01 CIAE-00

COME-00 DODE-00 EB-07 FRB-01 H-02 INR-07 INT-05 L-02

LAB-04 NSAE-00 NSC-05 PA-02 RSC-01 AID-05 CIEP-02

SS-15 STR-04 TAR-01 TRSE-00 USIA-15 PRS-01 SP-02

FEAE-00 OMB-01 /122 W
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R 101523Z JAN 75

FM AMEMBASSY PRETORIA

TO SECSTATE WASHDC 1109

INFO AMEMBAUSY BERN

AMCONSUL CAPE TOWN

AMCONSUL DURBAN

AMCONSUL JOHANNESBURG

AMEMBASSY GABORONE

USMISSION GENEVA

AMEMBASSY LONDON

AMEMBASSY MASERU

AMEMBASSY MBABANE

AMEMBASSY PARIS

UNCLAS PRETORIA 0117

CAPE TOWN FOR EMBASSY

PARIS FOR OECD

E.O. 11652: N/A

TAGS: EFIN, SF

SUBJECT: IS THE RAND UNDERVALUED?

REFERENCE : (A) PRETORIA A-184

(B) PRETORIA A-252

1. AS REPORTED REF B, THE SA ECONOMY HAS JUST COMPLETED EXCELLENT

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YEAR.

2. FINANCIAL MAIL OF JANUARY 10 HAS LEAD ARTICLE ARGUING THAT EXCELLENT OUTLOOK FOR SA IN 1975 (AS COMPARED WITH OECD COUNTRIES) AND PROSPECT OF AVERAGE GOLD PRICES OF AT LEAST \$170 ARGUE FOR SMALL REVALUATION OF RAND AS ANTI-INFLATIONARY MEASURE. FM SAYS 5 PER CENT REVALUATION WOULD CUT 1 PER CENT INFLATION RATE. PROFITABILITY OF GOLD MINES WOULD BE HURT SLIGHTLY, DECIDUOUS FRUIT EXPORTS MORE. IMPORT COMPETITION WOULD INCREASE, BUT SELECTIVE TARIFF PROTECTION COULD BE GIVEN MOST AFFECTED INDUSTRIES.

3. FM SAYS RESERVE BANK HAS NOT USED POLICY OF "INDEPENDENT MANAGED FLOATING" TO MAINTAIN VALUE OF RAND AGAINST WEIGHTED AVERAGE OF CURRENCIES OF MAJOR TRADING PARTNERS. RAND WEAKENED 5 PER CENT AGAINST THESE CURRENCIES IN 1974, APPRECIATED ONLY AGAINST LIRA, YEN AND AUSTRALIAN DOLLAR.

4. COMMENT: FM ARTICLE PERSUASIVE BUT NEGLECTS RECENT SERIOUS LABOR TROUBLES IN GOLD MINES AND HEAVY CAPITAL INVESTMENTS PLANNED NEXT FEW YEARS. GOLD PRICE AND GOLD PRODUCTION IN NEXT FEW MONTHS PROBABLY KEY FACTORS IN RESERVE BANK EXCHANGE RATE POLICY.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, GOLD, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 10 JAN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975PRETOR00117
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750011-0175
From: PRETORIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750162/aaaacbzu.tel
Line Count: 83
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION AF
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 75 RENCE : PRETORIA A-184
Review Action: RELEASED, APPROVED
Review Authority: CollinP0
Review Comment: n/a
Review Content Flags:
Review Date: 31 MAR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <31 MAR 2003 by RicharJA>; APPROVED <17 FEB 2004 by CollinP0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: IS THE RAND UNDERVALUED?
TAGS: EFIN, SF
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006